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SUBJECT: Booming Cross-Strait Trade Benefits Taiwan Economy but Could Feed Concerns of Dependence

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¶11. (SBU) Summary: Taiwan's trade with China grew by 15.4 percent last year, faster than its overall trade. Imports from the PRC grew at even faster rate, up 23.3 percent. China was Taiwan's largest trade partner and export market. It passed the United States as Taiwan's second largest source of imports for the first time in annual data. Taiwan's share of the PRC's total trade declined even as the PRC's share of Taiwan trade continued to increase. Although Taiwan's economy benefits from growing trade with China, some worry that the island's economy is too dependent on China. End summary.

Outpacing Overall Trade Growth

¶12. (U) Taiwan's total trade with the PRC in 2006 grew 15.4 percent to US\$88.1 billion. Trade with China outpaced Taiwan's overall trade, which rose by 12.0 percent. Imports from China were up an impressive 23.3 percent to US\$24.8 billion. Taiwan's total imports rose 11.0 percent. Taiwan's exports to China grew 12.5 percent to US\$63.3 billion, a slightly slower pace than global exports, which rose by 12.9 percent.

¶13. (U) Taiwan's trade surplus with China rose to US\$38.5 billion, growing by 6.6 percent. However, this was the slowest pace of growth since 2001. Growth in exports to China declined from 15.0 percent in 2005 to 12.5 percent last year. Growth in imports, on the other hand, rose from 19.7 percent in 2005 to 23.3 percent.

Largest Trade Partner and Export Market

¶14. (U) The PRC was Taiwan's most important trading partner for the fourth year in a row, increasing its share of Taiwan's total trade to 20.7 percent. This is a slight increase from 20.0 percent in ¶2005. Japan was the second largest, accounting for 14.7 percent of Taiwan's total trade in 2006; and the United States was third with 12.9 percent. China was also Taiwan's largest export market. Exports to China in 2006 accounted for 28.3 percent of Taiwan's total exports, which is a slight drop from 28.4 percent in 2005. This marked the first decline in China's share in at least five years. The United States, Taiwan's second largest export market, accounted for 14.4 percent of exports, down from 14.7 percent in ¶2005.

PRC Overtakes U.S. in Exports to Taiwan

¶15. (U) In 2006, China surpassed the United States to become Taiwan's second largest source of imports. (Note: China first surpassed the United States in monthly trade data in September 2005, but still ranked third overall in 2005. Last year was the first time China was the second largest source of Taiwan's imports in annual trade data. End note.) The PRC accounted for 12.2 percent of Taiwan's total imports compared to 22.8 percent for Japan and 11.2 percent for the United States. Imports from the PRC have grown substantially in recent years even though Taiwan maintains restrictions on the import of certain PRC goods, especially agricultural products.

Integrated Cross-Straight Supply Chains

¶16. (U) Taiwan trade with China reflects complex cross-Straight supply chains. Machinery, electrical equipment, and optoelectronics equipment (including equipment used in the manufacture of flat-panel displays and digital cameras) accounted for 62.9 percent of Taiwan's total exports to the PRC in 2006. These same categories accounted for 55 percent of Taiwan's total imports from the PRC. Many of these goods are components for information technology (IT) hardware and other consumer electronics that are assembled in China and are subsequently exported to the United States, Europe and Japan. Three of China's top four exporters in 2005 were Taiwan IT hardware manufacturers.

PRC Less Reliant on Taiwan Trade

¶17. (U) China's share of Taiwan's total trade continues to grow. However, Taiwan's share of the PRC's total trade declined again last

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year. Trade with Taiwan accounted for 5.05 percent of China's total trade for the first 11 months of 2006, down from 5.37 percent in **¶2005**. Although the decline is small, Taiwan's share has fallen gradually from a peak of 8.21 percent in 1996. Taiwan is the PRC's fifth largest trade partner and third largest source of imports. As recently as 2004, it was the PRC's second largest source of imports but was overtaken in 2005 by South Korea.

Troubling News for Some

¶18. (SBU) Comment: Cross-Straight trade has benefited many Taiwan firms and been an important driver of the island's economic growth in recent years. Nevertheless, some people in Taiwan are concerned that China's share of Taiwan's total trade continues to grow even as Taiwan's share of China's trade shrinks. Even though Taiwan's trade surplus with China is unlikely to turn into deficit any time soon, some will be troubled by strong growth in imports from China. These trade statistics will do nothing to allay concerns that Taiwan's economy is too dependent on China.

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